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U.S. Office of federal  
coordinator of...

Title:

Conclusions of the federal  
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Place:

Washington, D.C.

Date:

1936

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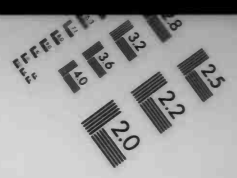
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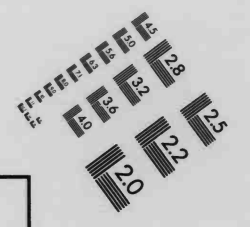
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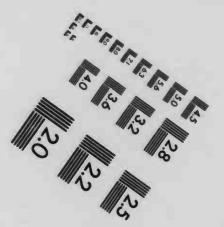
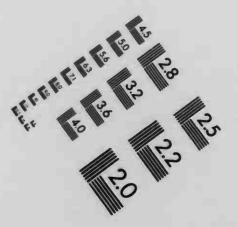
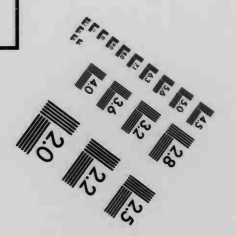


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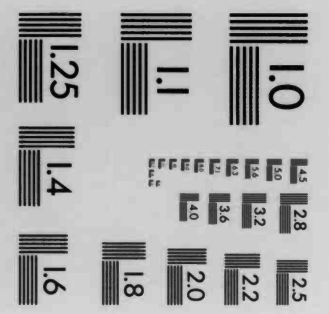


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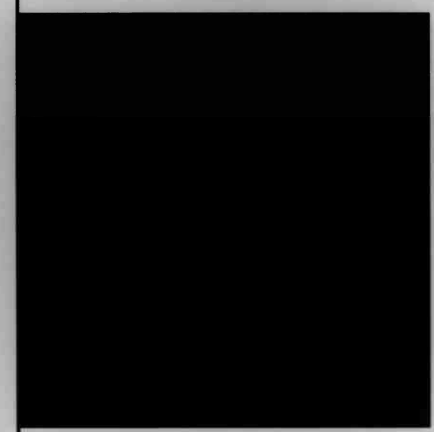
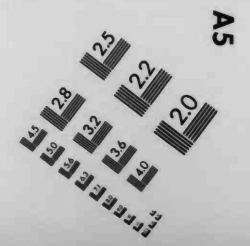
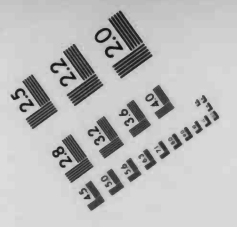


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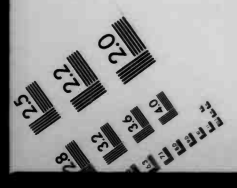


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U.S. Federal Coordinator of  
Transportation

—  
Conclusions on  
Merchandise Traffic.  
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**CONCLUSIONS**  
**OF THE**  
**FEDERAL COORDINATOR OF TRANSPORTATION**  
**ON**  
**MERCHANDISE TRAFFIC**

Washington, D. C.  
May, 1936

FEDERAL COORDINATOR OF TRANSPORTATION  
WASHINGTON

JOSEPH B. EASTMAN  
COORDINATOR

May 29, 1936

Aug 5, 1936 DA 112

To the Regional Coordinating Committees:

On March 22, 1934, I submitted to your Committees a report prepared by my Section of Transportation Service on the transportation of merchandise, the term "merchandise" embracing all property transported by carriers except milk, property shipped in carload lots, and property transported by pipe lines. In transmitting this report, I assumed responsibility for its statement of facts, knowing that they had been checked and rechecked in every possible way, but I did not then endorse the recommendations that certain radical changes be made in the methods of transporting merchandise, for I wished to have an opportunity to consider your views as to these recommendations before arriving at a definite opinion.

Since that time I have received and considered two reports by special committees of railroad officers appointed to study this matter. They did not approve the recommendations of my Section of Transportation Service, for although they conceded the existence of conditions urgently requiring correction, they felt that the application of needed remedies should be left to the individual

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railroads. Notwithstanding that I did not find these reports convincing, I thought that the individual railroads should have an opportunity to show what they could do in the way of correction, and that the results would probably be instructive.

Now that an ample opportunity of this character has been afforded, the time has come for me to submit to you a final report on the matter, expressing definite conclusions in the light of all information gained since my original communication of March 22, 1934. Such a final report is transmitted herewith, and it speaks for itself.

Let me in this connection quote an expression from my communication of march 22, 1934:

Permit me to emphasize, however, the thought that the correction of these conditions requires collective action on the part of the railroads. I am thoroughly persuaded that they cannot be corrected without introduction of the principle of pooling. This merchandise traffic cannot be successfully handled on an individual railroad basis. The essence of any solution of the problem must be concentration and simplification, as opposed to diffusion and complexity, and there is no way to attain these ends other than to handle the traffic collectively on a basis which probably must be nation-wide. A further essential, I believe, is coordination of the different forms of transport, and the use of each in its proper economic sphere. Merchandise traffic cannot be handled as it should be handled by the railroads alone or by the trucks alone. Both methods of transport must be employed and linked together in proper coordination.

What has since transpired has convinced me, even more strongly, of the essential soundness of these views.

Permit me to say, also, that my study of the subject has by no means been confined, since the date of my original communication, to a review of the reports received from the special railroad committees. Mr. John C. Emery, who since last summer has been Co-director of my Section of Transportation Service, has spent a large amount of time in interviewing the officers of individual railroads and endeavoring to promote the voluntary action on their part which was the end and aim professed by the special committees. He has kept me constantly in touch with the situation, and is in entire agreement with the report now submitted.

Whether or not I shall be able to follow this matter up as Federal Coordinator of Transportation remains to be seen, but in any event I hope that the necessary collective action on the part of the railroads may be taken at the instance either of the Regional Coordinating Committees or of the Association of American Railroads.

*Joseph B. Eastman*

Federal Coordinator of Transportation

CONCLUSIONS  
of the FEDERAL COORDINATOR OF TRANSPORTATION  
on MERCHANDISE TRAFFIC

On March 17, 1934, my Section of Transportation Service, in accordance with one of the stated purposes of Section 4, Emergency Railroad Transportation Act, 1933, submitted to me its Merchandise Traffic Report, hereinafter called the Section Report, which I forwarded to the Regional Coordinating Committees for study and comment. This study was progressed diligently by a national committee of railroad officers, and it culminated on June 11, 1934, in a report which is hereinafter referred to as the Committee Report. Subsequently, in an effort to reconcile differences between the Section and Committee Reports, a special committee of railroad officers was appointed to confer with my Section of Transportation Service. These conferences resulted in a report hereinafter called the Special Report.

Having considered these several reports and the data underlying them, and having given attention also to more recent developments with respect to the transportation of merchandise, it is now my duty to make known my conclusions on this subject.

The Section Report

The Section Report deals with the conditions which have resulted from the development of competing agencies in

the transportation of merchandise, and its objectives are improvement of service and reduction of waste by encouraging transportation in the most efficient form by each agency within its own field of service and operative utility. Data underlying the report consist of statistics of the Interstate Commerce Commission and other official or recognized sources, supplemented by replies to questionnaires by shippers, carriers, forwarders, and rail and express officers. These data are assembled in exhibit form in the appendix, there being 16 general exhibits, as follows:

- Shippers' Questionnaire
- Rail Carrier Inquiry
- Express Carrier Inquiry
- Electric Railway Inquiry
- Freight Forwarder and Consolidator Inquiry
- Water Line Inquiry
- Motor Truck Inquiry
- Rail Officer and Industrial Traffic Manager Inquiry
- Merchandise Production
- Financial Results of Rail Operation
- Rail Collection and Delivery
- Comparative Safety
- Cartage Costs
- Accounting
- Rates and Classifications
- Possible Rerouting of 1932 Merchandise Traffic.

Section I of the Section Report is a summary of present (1932) conditions as revealed by the data. Section II itemizes conditions requiring correction, their causes, and the general nature of the indicated remedy. Section III consists of four recommendations.

### Survey of Present Conditions

The Section Report shows that in 1932, rail l.c.l. and express tonnage was less than 37 percent of the average handled in 1923-25, a decrease much greater than was suffered in carload freight traffic and greater than warranted by depressed business conditions. About two-thirds of the rail l.c.l. and express traffic lost was found to have gone to other transportation agencies, including motor vehicles, freight forwarders and water carriers. The volume of merchandise handled by highway in 1932 was found to be over twice that carried in rail l.c.l. service.

The motor vehicle was found generally superior in speed to the freight train, and faster than rail express service for distances under 150 miles. Collection and delivery service was also found to have been a large factor in the growth of highway transportation, as well as the convenience arising from the flexibility of motor vehicle service in general. As to reliability, each type of carrier was found to have its advantages and disadvantages.

The Section Report found that diversion of merchandise traffic from the rails had also been caused by complex rail classifications and tariffs, burdensome packing requirements, incomplete transportation, higher rates, and the rigidity as well as the structure of the rail rate systems. The level of rail l.c.l. charges, as indicated by third-class rates, was found to be higher than the cost to the shipper for

highway transportation over distances ranging from 280 miles in the East to 950 miles in the Southwest.

Highway freight carriers were found to be operating at a small but inadequate margin of profit above costs. Freight forwarders were described in the Section Report as operating at a profit to themselves and to the railroads they patronize, but the conclusion was reached that their operations were detrimental to competing railroads and conducive to rate demoralization. It was found that rail l.c.l. and express traffic in 1932 earned approximately \$107,000,000 in excess of the so-called "out-of-pocket" cost of providing the service, but failed by \$80,000,000 to earn a full proportion of total operating expenses and taxes.

It was found that, while at present highway transportation of merchandise is relatively more economical than rail transportation for all distances, possible improvements in rail service and methods could make rail transportation generally the more economical for distances over 150 miles. The indications were, however, that highway transportation would continue to hold its advantage for distances less than 75 miles.

#### Conditions Requiring Correction

The Section Report found that conditions requiring correction were: Practices causing preventable wastes; the handling by one agency of traffic which could be more

efficiently handled by another; and competitive and indirect rate making which threatens rate demoralization.

Causes of these conditions were found to be: Lack of integration of traffics, organizations, facilities, and services; inferiority of rail services in speed, completeness, convenience and protection of lading; and higher total rail charges, due in part to complexity of classification and tariffs, burdensome packing requirements, incomplete transportation, multiple rate scales, rate rigidity and rate levels.

#### Remedies

The Section Report proposed as remedies for these conditions: Integration of rail l.c.l., express and forwarder traffics and services; a modernized system of merchandise transportation from door to door, in equipment designed for the service, at speeds and on schedules meeting modern conditions; a modernized system of merchandise tariffs, simple, intelligible and designed to encourage the economic division of traffic among transportation agencies; and coordination of rail and highway transportation, so that merchandise will be collected and distributed by highway in less-than-carload quantities and moved by rail largely in consolidated car loads. The economies which would result from these changes were estimated as amounting, possibly, to as much as \$100,000,000 a year.

The Report made four specific recommendations, designed to put these remedies into effect:

(1) That rail l.c.l., express and forwarder traffics be consolidated and that all rail merchandise services be pooled in the hands of two competing railroad-owned merchandise agencies, each national in scope, of comparable strength, and operated by independent managements. The plan recommended was designed to apply to all merchandise the present express plan of pooling, but to avoid certain obvious objections to that plan; by protecting the public against virtual monopolies of merchandise transportation, by preventing wasteful methods of routing, such as are required by the present express contract, and by protecting the gross and net revenues of the individual carriers in the pool. The acquisition of forwarding companies, to secure the benefit of their experience in efficient merchandise handling, was proposed.

(2) That merchandise be collected and delivered at the patrons' doors and transported by the railroads in shock-proof equipment at over-all speeds of at least 20 miles per hour. Collection and delivery was found essential, but susceptible to efficient operation only when, for practical purposes, universal and unattended by allowances or other "optional" features. Joint operation of collection and delivery service at common points was proposed. A simple form of

billing, approaching in simplicity that of the parcel post, was recommended.

The Report proposed temporary improvements in box car equipment, to permit higher speeds without risk, but suggested replacement eventually by specially designed equipment. Adequate speed in over-all transportation was to be obtained largely in freight trains, but passenger train use was suggested where expedited service is necessary.

(3) That a simplified classification, with liberalized packing requirements be established, and the express system of charges adapted for application to all merchandise traffic, with rate scales based upon cost plus a fair profit. The proposed classification would contain one standard class and two limited classes or groups of exceptions. Proposed packing requirements would be sufficient to protect lading against only the ordinary shocks of transportation. The present express system of charges would be revised to measure distance between express blocks in degrees of latitude and longitude rather than miles; to base rates on full cost for both line and terminal operations, plus a fair profit; to provide special charges for special services, including aggregation of small parcels into quantity lot shipments; to charge about double for expedited service (over 35 miles per hour, over-all); to reduce and make applicable to all merchandise traffic the provisions of the express tariffs for released valuation; and to show in one tariff document the

classification, packing requirements and specific rates for each degree of latitude and longitude and also the latitude and longitude of all points.

(4) That rail and highway transportation be coordinated, to provide concentration and distribution by truck and movement between concentration points by rail. This plan, the Report found, would give the public the benefit of the natural advantages of each type of transportation, which should to a considerable extent be supplemental to rather than competitive with each other. Elimination of duplication and reduction in number of stations were proposed. By analysis, it was shown that, by pooling and concentration, sufficient volume would be obtained to permit daily operation of merchandise cars, with an average of 12 tons per car, throughout the United States. Various methods of concentration, adaptable to a variety of circumstances, were suggested.

The Report found that 3,000,000 tons of merchandise were moving by highway over distances exceeding 250 miles, and 12,000,000 tons for distances between 50 and 250 miles. At the same time, 10,000,000 tons of l.c.l. freight were moving by rail for distances under 50 miles. Coordination would effect an exchange of about 10,000,000 tons of merchandise between rail and highway, with each carrier then handling the type of traffic it is capable of transporting most efficiently.

The Committee Report

The Committee Report entered a general objection to national pooling of merchandise traffic as a proposition involving grave national policy. Economies so derived, if realized, it indicated might in the end constitute too dear a price to be paid. It also questioned, specifically, the estimate of the additional expense in operating two national merchandise pools rather than one, concluding that the competition between the two pools would be shadowy at best, and that two agencies rather than one would increase estimated loaded car-miles about 20 percent, adding \$9,500,000 to line and terminal expense. It increased by nearly \$21,000,000 the Section Report's estimate of \$10,000,000 for additional administrative and selling expense.

The Section Report's estimates of economies in administrative, auditing, station, platform, transfer, road handling and switching expenses, to be derived from the proposed pooling scheme, were also criticized by the Committee Report. It found fault with the manner in which present costs were computed and questioned the accuracy of estimated costs under the pooling plan. At the same time, the Committee Report recognized the possibility of economy in the several items of cost, and, referring to progress already made, recommended continued effort along these lines. The Committee Report expressed the opinion that it is improper to base any conclusions upon cost figures as used in the

Section Report. It found them general in nature, and without allowance for varying local conditions. Any cost data of value, it insisted, must be the result of special studies between specific points and not mere apportionments of dollars. It was also declared that the year 1932, on which the Section Report's statistics were based, was not representative.

The Committee Report objected to various features of the plan of organization and operation for the proposed pools. It disapproved the plan for division of revenues, for governmental representation, and for the acquisition of forwarders, and was apprehensive of the effect of the pooling plan upon individual railroads. On the other hand, all pooling was not condemned, the Committee Report recognizing that the pooling principle has been used constantly throughout the history of railroad transportation.

The Committee Report disapproved the proposal of universal collection and delivery service, without restrictions, allowances or mileage limitations. It approved the principle of collection and delivery, but preferred variation in the plan of operation according to local conditions. It also approved joint trucking service in common terminals, where the carriers "agree that this is practicable."

The proposal of special shock-proof cars for the transportation of merchandise was condemned as too expensive. The Committee Report pointed out that the cars used must be interchangeable in the handling of carload and l.c.l. traffic,

if cross-hauling of empties is to be avoided. It referred to present and continuing improvements in equipment and to reduction in loss and damage claims, as indicating that the railroads are already on the right track.

The Committee Report concluded that the speeds recommended in the Section Report are not necessary, except in a few cases, and that additional expense to provide such speeds is unwarranted. It says that there is and should always be a spread in the speed of trains handling express and ordinary merchandise, sufficient to justify the differences in rates.

Objection to the proposed classification was based in the Committee Report upon a charge of impracticability. It stated that the rate and classification features of the Section Report would bring confusion, rather than simplicity, if adopted. The complexity of the present classification was explained as reflecting the inter-relation of l.c.l. traffic with the entire system of distribution of commodities, shippers' insistence upon special treatment for specific commodities, and also the rise of unregulated competition. The Committee Report referred to progress which had been made in simplifying the present classification.

The Committee Report denied that criticism of present packing requirements is correct except to a limited extent, finding them no more burdensome than truck packing requirements on most traffic. It concluded that the specifications go no farther than experience has proved necessary.

The Report found the proposed scale of rates objectionable for various reasons, including impracticability of measuring distances by degrees of latitude and longitude and conflict with mileage distances on the same railroad line. It disapproved the application of any single rate scale, and feared the effect of the proposed scale on carload rates. It also foresaw departures from the proposed "cost-plus" basis in the computation of the scale. The Report concluded that the proposed plan is not needed; that, generally, rates are not now too high; and that if some rate reductions are necessary, these can be made without affecting the whole structure.

The Committee Report, on the recommendation of coordinated rail and highway service, found that the proposed diversion of short haul merchandise, now handled by necessarily operated trains, would effect little saving in rail transportation expense. It foresaw many complications and little assurance that the end sought would be accomplished. The suggestion was made, however, that consideration be given to the amendment of the present Railway Express Agency contract to provide greater freedom of choice in the selection of routes and lines used, and to permit and encourage use of the highways where operating costs would thereby be reduced.

Exception was taken to the forecast of traffic redistribution in the Section Report. From the figures given, the Committee Report estimated the motor truck merchandise

tonnage for which rail service could compete to be only 2,850,000 tons, although it admitted that the amount of recoverable traffic is undoubtedly greater. As to the decline of L.C.L. tonnage, the Committee Report mentioned a number of reasons other than truck competition.

The Committee Report makes special mention of the omission of water lines from consideration in the report. It also recorded special objections to the proposed pooling plan from the standpoint of freight-carrying electric inter-urban railroads.

Finally, the Committee Report referred to a "faulty premise" that seemed to run through the Section Report. This is the idea that each of the two forms of transportation - rail and highway - can, by the means proposed, be placed in its proper economic sphere. The Committee thought this impossible, so long as conditions controlling the two instruments were unequal.

The final conclusions of the Committee Report number twelve, and are as follows:

(1) The formation of one or two national grand pools is not recommended. This does not, however, imply that the consolidation of rail LCL, rail express and forwarder freight should not be undertaken by individual railroads or groups of railroads, where it is territorially practicable and economical to perform a complete service.

(2) That collection and delivery service be established on merchandise freight, subject to exceptions as to specific commodities, to be included in the rate or otherwise, as varying conditions may render expedient.

(3) Where it would make for the rapid and economical movement of merchandise between carrier's premises and patron's place of business, the collection and delivery service established should be so organized as to provide for the concentration and distribution of merchandise at the fewest possible number of freight stations. In metropolitan areas this should also minimize the necessity for freight and depot storage space now necessary under existing practices.

(4) That carriers should use the same trucking facilities where collection and delivery service is established at common points and where it is mutually agreed to be practicable and in the common interest.

(5) That coincident with the adoption of collection and delivery service with such consolidation of rail LCL, rail express and forwarder freight as may be agreed to be practicable and economical, car line schedules be adjusted to obtain full advantage of the increased car-loading thereby possible.

(6) The same freight station facilities for the handling of merchandise traffic should be used at common points where the rail carriers agree that this is practicable and in the common interest.

(7) In instances where lightly loaded merchandise cars now move between common points over several routes, the traffic should, where the rail carriers agree that it is practicable and in the common interest, be consolidated into a minimum number of cars, with the revenues and expenses divided between the lines interested upon an agreed basis.

(8) That separate rate and classification bases continue to be used on merchandise transported in freight and in express service respectively.

(9) That the present freight merchandise classifications be remodeled, assigning the articles therein to a limited number of

classes, preferably not more than four (other than multiples of first class) and that the publication of commodity rates be minimized:

- (a) The merchandise rate structure, where necessary, to be revised to conform to the foregoing plan, and to meet the competition of other modes of transportation.
- (b) That classification ratings for merchandise traffic be uniform throughout the country, and identically related to first class so far as competitive conditions may permit.
- (c) C.O.D. and split delivery services to be provided at a special charge which will be in addition to the transportation rate.

(10) That in the assembly and distribution of merchandise freight within or between terminals or along rail lines, the most economical and efficient methods and transportation facilities should be used consistent with that which the service requires.

(11) That the work now in progress of liberalizing classification packing requirements to meet public demand be continued to the fullest extent reasonably practicable.

(12) That the work of simplifying present billing and accounting methods continue and be progressed diligently.

#### Special Report

The Special Report, which was unanimously approved by the Regional Coordinating Committees, reflected substantial agreement between the Special Committee of Railroad Officers and my Section of Transportation Service, as to principles, objectives, and largely as to methods. The

principle of coordination was approved, as were the common use of facilities and terminal services for all classes of merchandise traffic; improvement of service in speed, dependability and regularity; simplified rate structure, classification and packing requirements; simplified billing and accounting methods; realization of all practical economies in the handling of merchandise; the moulding of rates, service, plant and facilities to meet the needs of the shipping public; collection and delivery service, to be included in the rate, with certain exceptions; and concentration and distribution of merchandise at a minimum number of stations.

The one point of continued difference between the Special Committee and my Section of Transportation Service lay in the method of procedure. The Section proposed immediate merchandise pooling by all railroads. The Special Committee proposed to leave the establishment of merchandise pools to the carriers themselves, acting individually or in groups, regionally or otherwise, with pooling accomplished either directly, or through the Railway Express Agency, or by the organization of an l.c.l. freight traffic agency.

The full text of the Special Report follows:

Having considered the Merchandise Traffic Report of the Coordinator's Section of Transportation Service, the final report of the joint National Committee appointed by the Railroad Regional Coordinating Committees, and subsequent suggestions, and in the hope of harmonizing divergent views, we;

1. Conclude that until there is essential regulation of the rates and charges of transportation competitive with

rail, no plan for pooling rail merchandise traffic will restore the lost L.C.L. traffic to the rails to the degree desired, upon a compensatory basis.

2. Approve in principle the greatest practicable coordination in the handling of L.C.L. merchandise traffic and recommend that the rail carriers cooperate to the maximum in the development of the most practicable, efficient and expeditious plan to accomplish the desired results. Such cooperation should contemplate the accomplishment of the following:

(a) To the extent that it may be practicable and in the common interest to do so, eliminate the duplication of organizations, services and facilities, and where lightly loaded merchandise cars now move over several routes between common points consolidate the traffic into a minimum number of cars, and divide the revenue and expenses upon an agreed basis.

(b) To the extent practicable and economical provide for the common use of facilities and terminal services for all classes of merchandise traffic, however handled.

(c) Continue to improve the service to the public with respect to speed, dependability and regularity, using equipment adaptable to the service, at speeds and on schedules to meet present-day needs.

(d) Simplify the merchandise rate structure, classifications and packing requirements.

(e) Simplify billing and accounting methods.

(f) Realize all practical economies in the handling of merchandise traffic.

(g) Increase the volume of merchandise traffic carried by Rail by moulding the rates, service, plant, and facilities to meet in the maximum degree the needs and convenience of the shipping public.

(h) Establish collection and delivery service to be included in the rate, subject to such exceptions as varying conditions may render expedient.

(i) Where it would make for the rapid and economical movement of merchandise between carrier's premises and patron's place of business, the collection and delivery service established should be so organized as to provide for the concentration and distribution of merchandise at the fewest possible number of freight stations. In metropolitan areas this should also minimize the necessity for freight and depot storage space necessary under existing practices.

It is proposed that these purposes shall be accomplished by the carriers themselves, acting individually or in groups, regionally or otherwise. Pooling of merchandise traffic, where advantageous to the carriers and the public, should be undertaken by any two or more carriers either (a) directly or (b) through utilizing the services of the Railway Express Agency or (c) by organizing an L.C.L. freight traffic agency, as the carriers in each case may determine to be preferable.

In the organization and management of such L.C.L. freight traffic agencies, the following principles should govern:

1. Any rail carrier should have the privilege of joining or participating in some one agency operating in its territory.

2. The rights, duties, obligations, management, policies and division of revenues and expenses shall be agreed upon between the agency and its member-carriers.

3. Where L.C.L. freight traffic agencies are created, each such agency should:

(a) Issue uniform tariffs covering classifications, packing requirements, and rates for all merchandise freight.

(b) Use, to the extent economical and practicable, the existing merchandise facilities and forces of its member-lines for handling L.C.L. merchandise freight, in order to avoid duplication of facilities, personnel, or service.

(c) Use, to the extent economical and practicable, the Accounting, Treasury, Law, Tariff, or other General Office forces of its member-lines to avoid duplication.

(d) Make such arrangements as may be agreed upon between said agency and its member-lines for the transportation and handling of its merchandise traffic.

The L.C.L. Freight Traffic Agencies, the Railway Express Agency to the extent that it handles L.C.L. freight traffic, and each Railroad which may continue to handle L.C.L. freight independently of any such Agency, shall jointly and severally establish and maintain such interchange arrangements as may be necessary to afford prompt and satisfactory service to the public.

#### Conclusions

The fact which impresses me is that my Section of Transportation Service and the Committees of railroad officers are so close to substantial agreement. There is such agreement with respect to the elements of the merchandise traffic problem, to the urgent need of a remedy, and to the general character of the remedy which will solve the problem. Estimates of economies possible are not agreed upon, but even if the lowest estimates are accepted, these are worth getting. Personally I am convinced that the economies will be much larger than the railroad committees have been ready to admit.

There is disagreement only as to the extent to which the remedy should be initially applied, and perhaps as to how far it should eventually go. My Section of Transportation Service is convinced that pools practically nationwide in scope are indispensable to the full accomplishment of the agreed objectives. The railroad committees, on the other hand, insist upon a more cautious course, leaving individual

carriers free to resort initially to local or regional pooling of merchandise, or even to do nothing at all.

The Section Report gives reasons for an immediate and thorough-going attack on the problem. It seems to me that the railroad committees tacitly admit the validity and force of these reasons, but refuse to admit their compelling nature because of two fears: fear of "nationalization" of the railroads, and fear of jeopardy to the interests of individual railroads.

I am unable to follow the reasoning which ends in the fear of "nationalization." An important part of the merchandise traffic of the many individual railroads has long since been pooled, or "nationalized." That is the express traffic, which is handled for the railroads by the express agencies in much the fashion now proposed for handling of all merchandise traffic. The pool of the Railway Express Agency, Inc., is virtually nationwide. If the working of this express pool has offered grounds for criticism, it has not been a ground that a dangerous precedent in "nationalization" has thus been set. The express pools were formed to solve a special problem in transportation. That is likewise the reason for the proposal of the nationwide merchandise pools, for merchandise transportation is now fully as specialized in the difficulties it presents as express traffic ever has been. Apprehension of the effect of the plan for national merchandise pooling, on the

ground that it involves a grave national policy, is without real basis.

So far as "nationalization" of the railroads is concerned, I am of the opinion that this is much more likely to result from a continuance of the waste and losses which are sought to be corrected than from the corrective measures proposed.

There is more substance in the fear of jeopardy to the interests of individual railroads which might result from a redistribution of the merchandise traffic. The possibility is admitted, but there is no reason apparent to me why the possibility should become an actuality. Properly drawn pooling contracts would definitely avert any such danger.

I am of the opinion, too, that the individual as well as the collective interests of the railroads will be better served by a plan which gives every promise of introducing efficiency and profit in railroad merchandise transportation, than by the present plan which has been demonstrated to result in inefficiency and loss.

For the foregoing reasons, it is my conclusion that the expressed fears with respect to the effect of national merchandise pooling are without foundation. There remain to be considered the merits of the alternative proposal, made by the railroad committees; namely, to leave the individual

carriers free to resort initially to local or regional pooling of merchandise, or to do nothing at all.

Admittedly, such local or regional pools would eliminate some of the waste which attends the present method of merchandise transportation. Furthermore, a gradual approach to national merchandise pooling might be better in the long run than the immediate adoption of the latter, if the gradual approach were made by railroads eager to make each pool succeed and the immediate national pooling scheme had to be put in effect by railroads unconvinced of its merits and dubious of its effect. It is for this reason that I have been acquiescent in the expressed desire of the railroad committees to try out their own plan of procedure and have refrained from forcing the broader and, in my opinion, better conceived plan of my Section of Transportation Service.

Unfortunately, this policy has not borne much fruit. It is now approaching two years since agreement was reached on the necessity for action, but the action was left to the initiative of the individual railroads. This seems enough time at least for a start to have been made, yet the merchandise problem today is largely exactly what it was two years ago. Regulation of interstate operations of motor carriers has become a fact. Store-door collection and delivery has been widely introduced. Individual railroads have purchased truck lines and arranged some coordination of rail and highway transportation. But of joint railroad action to get at

the root of the merchandise problem, which is the multiplicity of services, facilities and routes, there has been nothing. Even the storedoor collection and delivery, which might be considered a substantial step toward a better system of merchandise transportation, has been independently established, without the other changes in operation, service, and rates which should have gone with it, so that the net effect has apparently been to make railroad merchandise operations more expensive, in opposition to the essential need.

Subsequent to the negotiations in which my Section of Transportation Service was involved, various committees of railroad officers, at the direction of the Regional Coordinating Committees, attempted to develop plans for regional merchandise pools. Although I have not been officially apprised of the results of their work, I understand that before this effort was dropped, some progress had been made in developing concrete measures to carry into effect the regional pooling principle.

In a word, there is every indication that the plan advanced by my Section of Transportation Service for solving the merchandise traffic problem has the general approval of railroad officers, in local or regional if not in national form. This being the case, it is impossible for me to understand or excuse the failure of the railroads to take voluntary action in line with the principles which they have approved. The conclusion is forced upon me that if progress is to be

made, some form of compulsion is necessary, either by the Association of American Railroads or by the Government.

For present purposes, it is enough that I should approve or disapprove the Merchandise Traffic Report of my Section of Transportation Service. It has already been made clear that I approve it in general. Two points, however, deserve special mention.

The Section Report proposes the formation of two merchandise agencies. In my judgment, however, it is not a matter of overwhelming concern whether there should be one, two or even three or four merchandise agencies. The important thing is that there should be such agencies, immediately, in one of these numbers.

The other point is as to the classification and system of rates proposed. The principles of a "classification of exceptions" and rates based on cost plus a profit seem to me to be sound, compelled by competitive conditions, and attainable only by drastic revision of the classification and the actual rates now in effect. The classification and system of rates suggested in the Section Report represent merely one suggestion. I am not committed to them, but on present evidence I do approve the principle involved.

I should add that so far as there may be findings in the Section Report which bear directly upon issues which will be considered by the Interstate Commerce Commission in the investigation which it has instituted of collection and

delivery service in eastern territory, they are subject, so far as I am concerned, to any changes which the record in that proceeding may show to be warranted. I refer particularly in this connection to the finding that collection and delivery service should not be attended by allowances or other "optional" features.

With the exceptions noted, I approve and make a part of my Conclusions on Merchandise Traffic the Merchandise Traffic Report of my Section of Transportation Service, including its text and its appendix of 16 exhibits.

Joseph B. Eastman

Federal Coordinator of Transportation

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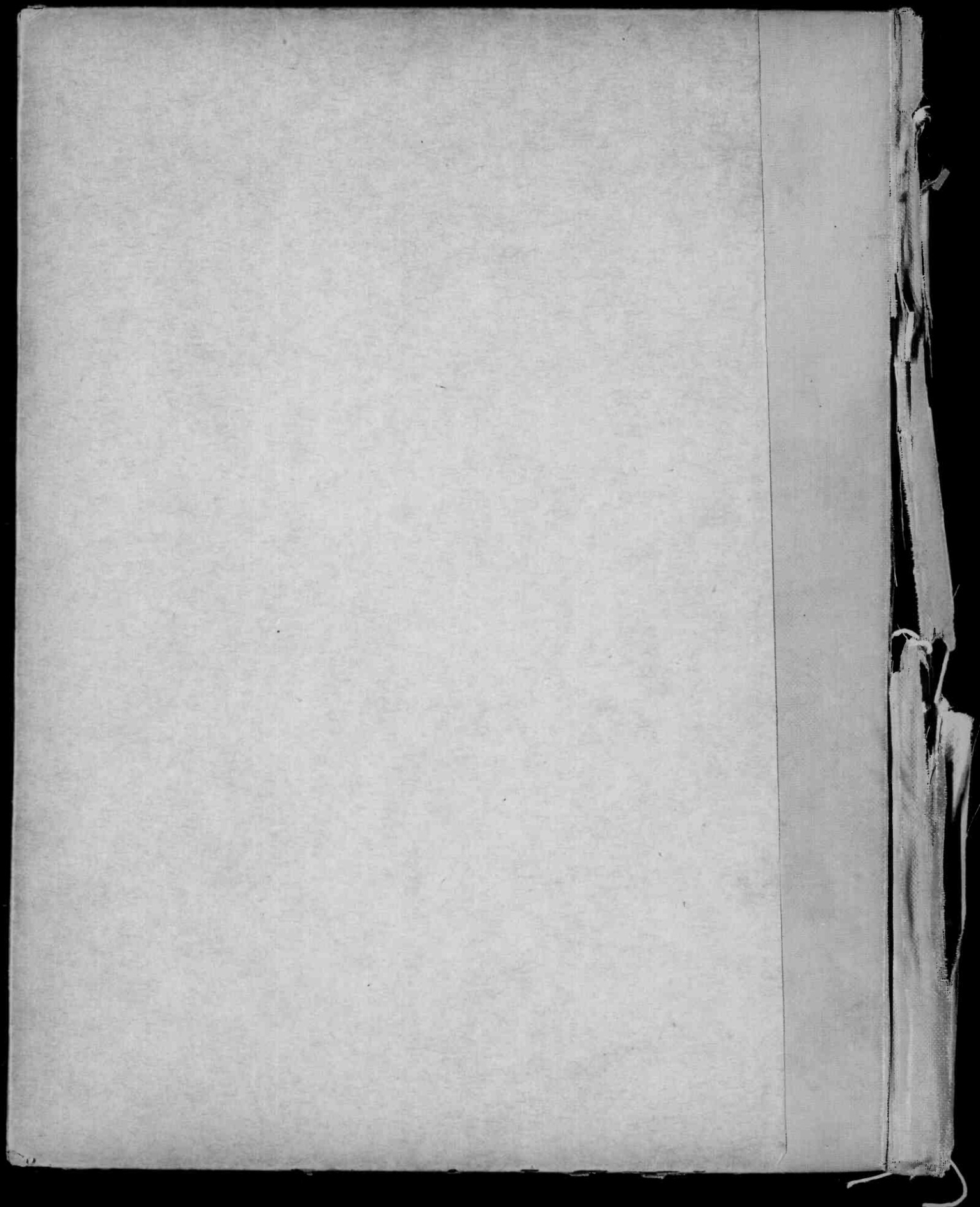
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